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SUBJECT: BOTSWANA HOUSES PROVIDED THROUGH CHINESE LOANS

¶1. SUMMARY: The government of Botswana has again turned to the China Export-Import Bank to fund a construction project, despite a loan provision requiring that the work be performed by Chinese firms. The \$9.2 million loan will fund construction of 293 houses in Gaborone. Parliamentary support is strong, though a few MPs have voiced concern over the provision of jobs to Chinese workers and the economic loss for local companies. END SUMMARY.

BOTSWANA HOUSING CORPORATION (BHC) RECEIVES CHINESE LOAN

¶2. During the week of July 17 the BHC Loan Ratification Bill received broad support in Parliament. The bill ratifies a loan agreement between the GOB and the Export-Import Bank of China, providing for a 55 million pula (US \$9.2 million) housing construction loan. Similar to earlier Chinese road project loans, this loan has a grant element of 33 percent, a 3 percent interest rate, and a ten-year repayment period. The money is to be used to build 293 housing units in Gaborone.

¶3. In 2004 the governments of China and Botswana entered into a Framework Agreement on a loan of 140 million pula (US \$23.3 million) for the construction of housing units countrywide. So far, the BHC has received money for 425 housing units, spread throughout the country. While previous loan conditions were not made public, this new installment comes with publicized strings attached.

CONDITIONS SET: CHINESE FIRMS MUST BUILD HOUSES

¶4. Finance and Development Planning Minister Baledzi Gaolathe announced in Parliament that part of the conditions for the loan is that a Chinese company will do the home construction, but will "normally" subcontract to local companies. During Parliamentary discussion, Gaolathe explained that because Botswana is classified as a middle-income country, it has been difficult to source financial assistance from lending institutions such as the World Bank or African Development Bank.

VOICES OF OPPOSITION DENOUNCE UNFAVORABLE LOAN CONDITIONS

¶5. Even though the bill enjoys the support of legislators from all political parties, a few MPs did voice their opposition. MP for Gaborone Central Dumelang Saleshando said the conditions attached to the loan were not favorable to Botswana, noting that the lending nation was set to benefit more than the recipient nation: "The arrangement is akin to providing job opportunities to [China] at the expense of Botswana who are becoming more desperate for jobs with each passing day." He posited that Chinese companies rarely, if ever, subcontract out to Botswana companies, preferring to bring in their own cheap labor. MP Mmoloki Raletobana of Kweneng South East said that citizen-owned

companies should be given priority during the tendering process in order to create necessary jobs, while MP Khumongwana Maoto of Francistown South stated that Batswana should be given priority if economic empowerment was to bear fruit.

COMMENT

16. Minister Gaolathe's comments are not the whole picture. While Botswana may not qualify for soft-loans, the government's high credit rating certainly allows access to low-interest loans. There is a strong interest from OPIC in ensuring access to appropriate loans for any housing project in Botswana that includes a minimum-required U.S. business component. In fact, from May 2-4 Botswana officials attended the OPIC housing conference in Cape Town and expressed interest in our efforts at engagement, albeit with a slow response time. Although the U.S. model might prove more economical in the long run and provide needed jobs here, the Chinese deal, including a low loan rate and a grant portion, looks more appealing up front. China is using its funding ability to make inroads into the country, not only politically but also economically, while creating guaranteed jobs for its own citizens. Although a U.S.-funded project would include training for local citizens, a Chinese funded project will not only be absent a training component but will also bring in Chinese workers for the construction -- a fait accompli the GOB and Botswana workers may soon rue down the road. END COMMENT.

DROUIN